

City of Tucson Independent Audit and Performance Commission

Review of Transit Financial Forecast by the Independent Audit and Performance Commission January 7, 2015

Honorable Mayor and Council:

Executive Summary

This is the fourth report to Mayor and Council by the Independent Audit and Performance Commission (IAPC) pertaining to its review of the Transit System's Five Year Financial Forecast, including its underlying assumptions and projections. Support of the Transit System comprises nearly 10 percent of the General Fund's 2015 budget, competing with all General Fund supported City activities for the use of increasingly scarce financial resources. The IAPC's review focused on the forecast of the annual General Fund's contribution/investment in the transit system.

The Five Year Financial Forecast attempts to provide what it will annually cost the General Fund to maintain the Transit System's current routes and operations assuming no fare increases and modest levels of increased ridership.

The forecast's expenditures and revenues were discussed in detail, including built in increases to expenditures and revenues, including increases in ridership levels. IAPC recommended modifications to the Five Year Financial Forecast, including removal of included fare increases, removal of savings associated with system changes not yet approved by Mayor and Council, and a scaled back projection of the annual increase in ridership.¹ See Attachment A for a more detailed presentation of the suggested adjustments.

Revised Forecast of General Fund Contribution/Investment in Transit System

\$\$s in Millions

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Fund Contribution/Investment Per Five Year Forecast Presented to Mayor and Council in June 2014	\$45.2	\$44.4	\$ 43.8	\$ 44.8	\$48.8
IAPC Recommended Adjustments -NET	4.0	4.8	4.8	5.2	5.2
Adjusted General Fund Contrib/Investment	\$49.2	\$49.2	\$48.6	\$ 50.0	\$ 54.0

¹ Forecast includes an increase in ridership levels of approximately 2% annually. Increasing ridership is an ongoing priority of the system; however, based on recent years, achievement of a 2% increase may be an elusive goal.

In addition to recommending adjustments to the forecast, the IAPC made the following recommendations:

1. Continue to refine and improve the data and analytics used in the preparation of the forecast.
2. Establish formal policies for both the minimum level of General Fund Contribution/Investment (and criteria for increasing funding), and for the timing and acceptable levels of future fare increases.
3. Schedule Mayor and Council review of the forecast in January or February, with focus on Year One of the plan. The review would include setting fare adjustment levels and the General Fund Contribution/Investment.
4. For all three transit modes, consider the presentation of cost effectiveness performance measures as part of the five year forecast reviewed by Mayor and Council.
5. Utilize the recently completed Comprehensive Operational Analysis as a tool for staff to make recommendations for additional system improvements.

A more detailed discussion of recommendations appears on page 8.

Background

In the Draft Five Year Strategic Transit Plan document (dated October 5, 2012), the Transit Task Force (TTF) recommended to Mayor and Council that the Independent Audit and Performance Commission (IAPC) perform "an independent review of the system during fiscal year 2013 to ensure sound fiscal management, and then as often as deemed necessary. This review would include an examination of financial and system performance data in addition to external audit reports, findings, and corrective actions."

The IAPC identified three potential areas of interest relative to an independent review of the transit system which could add value to its operation, financial management and planning, and ensure compliance with guidelines and regulations. On November 27, 2012 an IAPC subcommittee met to discuss what audit/review processes are currently in place (by whom and how), the formulation of the transit system's annual budgets, and information included in the Five Year Financial Forecast as included in the draft *Five Year Strategic Transit Plan* dated October 5, 2012. The subcommittee's findings and observations were reported to the full IAPC on December 5, 2012, and on January 9, 2013 the full Commission issued a report to Mayor and Council. A copy of that report is attached (see Attachment D).

The report included the following recommendation:

"The IAPC recommends that it undertake a detailed review of the Five Year Financial Forecast, and its underlying assumptions and projections, once the City and Veolia have generated a more solid forecast that clearly indicates its relationship to short-term goals and objectives established in the Five Year Strategic Transit Plan. The IAPC believes that to begin a review at this time, while that forecast is still under development, would be more disruptive than beneficial."

Since that time, the IAPC has issued two additional reports on the progress of the review of the *Five Year Financial Forecast*. Those reports can be viewed on the City of Tucson's website:

- The December 2013 report at:
<http://www.tucsonaz.gov/files/clerks/uploads/bccfiles/15086.pdf>
- The May 2014 report at:
<http://www.tucsonaz.gov/files/clerks/uploads/bccfiles/16296.pdf>

The Five Year Financial Forecast for Tucson's Mass Transit Systems

The forecast includes projected revenues and expenditures for the City's three transportation modes and two administrative units.

Transdev provides complete management oversight and coordination, under contract with the COT, activities that include coordination of ADA paratransit eligibility, and special services functions for:

- **Sun Tran** which operates the fixed-route public bus service within the City of Tucson metropolitan area and unincorporated Pima County
- **Sun Van which** operates the paratransit service for persons with disabilities within the City of Tucson metropolitan area and unincorporated Pima County

RDMT provides management oversight and coordinates the activities of the **Sun Link Streetcar**.

Transdev and *RDMT* staff provides a wide range of services : scheduling, dispatching, accounting, payroll, human resources, risk management, labor relations, marketing, regulatory compliance , customer service, information technology, operations management and supervision, on-the-road supervision, training, safety management, fleet maintenance, and cleaning. The management firms work closely with the City of Tucson Transportation Department, to provide safe and convenient transportation services.

Expenditures -

The forecast is intended to include all costs (operating and capital) incurred to provide transit services, including salaries and wages, services and contracts, commodities (including fuel). Also included are related capital outlays (i.e. buses, vans and maintenance facilities). Labor, fuel and parts (i.e., moving the buses) continue to be approximately 84% of the Mass Transit budget. It was reported that: "Future increases to GF investment are primarily driven by federal funds used for capital expenditures such [as] transit buses and the growth of paratransit service."

Revenues/Funding Sources -

The forecast includes projections for the following sources:

- **Farebox:** All fares for Sun Tran, Sun Van and Sun Link services, the city employee bus subsidy, sponsorship operating assistance from Raytheon, and shuttle service.
- **Other Agencies:** Operating and capital assistance from Pima County, Oro Valley, and South Tucson, and, the Regional Transportation Authority (RTA).
- **Federal Grants and Contributions:** Federal operating and capital grant funds from the Department of Transportation and Federal Transit Administration. Federal grant revenues are earned on a reimbursable basis.
- **Miscellaneous/Other:** Miscellaneous revenues include the sale of capital assets, advertising revenues, rental income, and minor sundry revenues.

General Fund Contribution/Investment -

Since Transit revenues do not cover all the costs of the system, funds are transferred annually from the General Fund to provide financial support to cover any fiscal year deficit. The actual General Fund contribution will be whatever is needed to cover the fund's revenue shortfall during a fiscal year, regardless of the amount indicated in the

City's Adopted Budget. At year end the total shortfall of revenues under expenditures will be covered with General Fund monies.

The Transit System, comprising nearly 10 percent of the General Fund's 2015 budget, competes with all General Fund supported City activities for the use of increasingly scarce financial resources. The system's *Five Year Financial Forecast*, therefore plays a key role in constructing the larger five year plan for the General Fund.

Preparation of Five Year Financial Forecast

Sun Tran staff, with input from the management team (General Manager, Assistant General Manager, and Sun Tran department directors), prepares the annual budget and five year financial forecast. When preparing the budget and five year forecast, staff utilizes historical financials, year-end projections, estimated increases or decreases to costs and revenues, anticipated service levels and ridership and any other known outside factors which may impact revenue or costs. Staff works with City of Tucson's Budget Department to assess and refine the projections.

As directed by Mayor and Council specific goals were included in the five-year plan:

- Maintains a 25% farebox recovery ratio.
- Includes identified system efficiencies that do not reduce service or raise fares.
- Achieves a target level for Fiscal Year 2015's General Fund Contribution/Investment.

The five year forecast is reviewed by senior management of Sun Tran and the City of Tucson's Transportation Department. Once a draft forecast is developed the draft is shared with TOOT and the City of Tucson Budget department. TOOT and COT budget staff review by line item and ensure that parameters as stated above are met. In addition to line item expenditures, projected revenues are reviewed and adjusted as appropriate. City staff and transit staff discuss significant variances and the reasoning for the variances between the current year budget, the upcoming fiscal year budget and outlying budget years prior to finalizing the document. The reviewed five year forecast has been presented to the Transit Task Force before being submitted to Mayor and Council.

Review of the Five Year Financial Forecast:

The IAPC Subcommittee held ten meetings between August and December of 2014 to review the updated Five Year Financial Forecast (fiscal years 2015 to 2019). This forecast was presented by staff to Mayor and Council during June of 2014.

During meetings the forecast elements and information was provided to the Subcommittee by staff: Kate Riley (Sun Tran/Sun Van General Manager), Ronda Lugo (Sun Tran/Sun Van Finance Director), Jeremy Papuga (TOOT Transit Administrator),

Debbie Carroll (Sun Link Accountant) , and Joyce Garland (Budget and Internal Audit Program Director). Robert Kulze (Interim Internal Audit Manager), assisted by Diane Link (Administrative Assistant) , provided meeting planning support and overall coordination efforts to the Subcommittee .

The Subcommittee reviewed the revenues and expenditure elements of the forecast by mode (Sun Tran, Sun Van, and Sun Link) and by expenditure category (operating and capital).

Challenges Faced in Preparing the Revenue Forecast - Staff encountered a major uncertainty issue in farebox revenue forecasting. Numerous factors contribute to uncertainty including:

- Unpredictable ridership levels - Transit ridership is affected by many factors including the City's overall economy, gasoline prices, fare prices, service levels and routes, and weather .
- Numerous transit fare types - Predicting revenues is also complicated by the more than twenty fares available to the community .
- The addition of the modern streetcar has required allocation of projected shared SunGo revenues (monthly and semester passes) in advance of any actual data.

Modeling and Assumptions – For both revenue and expenditure forecast, the Subcommittee reviewed both the modeling and underlying assumptions . In certain situations, staff was requested by the Subcommittee to revise forecast amounts.

Major Focus Areas – Since the General Fund's support of transit services is a significant part of the Fund's budget (9.5% for FY 2015), the Subcommittee focused on using the forecast as a planning tool for the City's budgetary planning requirements. Additionally, focus was placed on operating revenues and expenditures as capital costs are largely federally funded² and projects delays would merely push General Fund matching fund costs from one year into the next.

Documentation – As part of meeting presentations staff provided significant documentation. Additional documentation was provided when requested by the Subcommittee. Internal Audit has a documentation notebook that is available for review upon request.

Review – Prior to release of this final report, the draft was shared with staff for review and discussion.

² The City match on federally funded capital projects is typically set at 20 percent of project costs.

Findings

Upon completion of the review of the Five Year Financial Forecast, the IAPC makes the following findings:

1. The Five Year Financial Forecast was constructed in a manner that enabled timely review and analysis of the underlying data, trends, assumptions, and the resulting projections. The forecast was adequately documented and inputs to the planning model were available for review. The forecast includes savings resulting from the anticipated February 2015 implementation of some of the route changes recommended in the Comprehensive Operational Analysis (COA). These changes are estimated to reduce expenditures by approximately \$1 million in FY 2015 and \$2 million annually in later years.
2. Data, assumptions and trends used in the development of forecasted revenues and expenditure were reasonable, with the exception of the adjustments discussed below.
3. The present and future forecasts for General Fund Contribution/Investment should be adjusted for the following (see Attachment A):
 - a. Debt service (Attachment B) on the Certificates of Participation issued for the purchase of five (5) modern streetcars should be reflected in the forecast (increase to General Fund contribution/investment).
 - b. The value of General City land used as match for federally funded transit projects should be considered additional General Fund contribution/investment.³
 - c. Based on analysis of FY 2015 revenues through October 31, 2014, it is recommended that farebox revenues be lowered for the current and future plan years.⁴
 - d. Based on staff projections of FY 2015 expenditures at October 31, 2014, it is recommended that fare operating revenues be modestly lowered for the current and future plan years
 - e. The forecast includes revenues from fare increases of approximately \$1.5 million in FY 2016 and FY 2017, and by approximately \$1.8 million in FY 2018 and FY 2019. Since fare increases have not been approved by Mayor and Council and no policy regarding fare increases exists, they have been removed from the forecast.
 - f. Forecast anticipates savings via implementation in February 2015 of route changes recommended in the Comprehensive Operational Analysis

³ Use of land as match for federal grants will not appear in the City's annual budget as it is a non-cash transaction.

⁴ The adjusted revenue growth resulting from increase in ridership for FYs 2016-2019 is 2% annually. Ridership growth below 2% will increase the required General Fund Contribution/Investment; growth above 2% will reduce it.

(COA). These changes were not approved by Mayor and Council and have been removed from the forecast.

4. Development of the Five Year Financial Forecast, and potentially the operation of the transit system, is hindered by lack of formal policies and timely decisions regarding the level of General Fund Contribution/Investment and acceptable transit system fare increases.

Recommendations

1. Continue to refine and improve the data and analytics used in the preparation of the forecast.
2. The General Fund Contribution/Investment and potential fare increases are critical elements in the preparation of the five year financial forecast, impact transit system operations, and are driving factors, along with ridership level, in meeting the target 25% farebox recovery ratio. Formal policies are recommended for:
 - a. . The minimum level of General Fund Contribution/Investment, and criteria for increasing funding.
 - b. Timing and acceptable level of future fare increases.

Note: The Transit Task Force (TTF) Recommended Transit Fare Policy (Attachment C) adopted by Mayor and Council on December 9, 2014, establishes the guidelines for setting and adjusting fares for the public transit system. The Fare Policy includes fare payment options, fare structure, target farebox recovery for the various modes, requirements for public notice and solicitation of comment, and guidelines for future fare adjustments. It is the understanding of the Independent Audit Commission that staff and TTF members will review system performance, farebox recovery and other related data on an annual basis with any recommended fare adjustments being made every two years.

3. Schedule Mayor and Council review of the forecast in January or February, with focus on Year One of the plan. Review would include setting fare adjustments and the General Fund Contribution/Investment. This allows adequate time for the required public process for fare increases, if needed, or for revisions to the transit system operations (expenditure reductions) well in advance of the City's budget adoption in June.
4. For all three transit modes, consider the presentation of cost effectiveness performance measures as part of the five year forecast (such as percent change in cost per boarding, percent change in cost per passenger mile, and comparisons to peer transit systems). Staff concurs that periodic system reviews help to ensure that performance standards are being met.

5. The recently completed Comprehensive Operational Analysis provides a baseline and tools for staff to review and evaluate overall system performance by route and make recommendations for system improvements.

Future Issues and Concerns

During review of the forecast numerous issues were discussed briefly that impact transit system operations and finances, but that were outside of the IAPC's current project scope. Topics included competition from the private sector, technology, marketing, security, and additional ridership analytics . The IAPC may visit some of these issues in the future.

Acknowledgments

The IAPC wishes to thank staff of *Transdev*, *RDMT*, and the City of Tucson Departments of Transportation and Budget for time spent in meetings, for providing all requested information and data, and for performing additional analysis when requested by the Subcommittee .

Respectfully Submitted,



Kevin Oberg
IAPC Chair

Attachments :

- A – Revised Forecast of General Fund Support of Transit System
- B – Summary of Bond Sale
- C – Transit Fare Policy
- D – IAPC Report to Mayor and Council dated January 9, 2013

- c: Martha Durkin, Interim City Manager
Kelly Gottschalk, Deputy City Manager
Albert Elias, Assistant City Manager
Ron Lewis, Assistant City Manager
Daryl Cole, Transportation Director
Joyce Garland, Budget and Internal Audit Program Director
Kate Riley, Sun Tran / Sun Van General Manager
Steve Bethel, Sun Link General Manager

Revised Forecast of General Fund Contribution/Investment in Transit System

		<i>\$\$ in Millions</i>				
		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Per Five Year Forecast Presented to Mayor and Council June 2014						
Operating:						
General Fund Contribution/Investment of Sun Tran/Van Tran/Transit Services		41.8	39.6	41.1	42.0	42.8
Sun Link		0.9	2.1	2.3	2.3	2.5
Total Operating		42.7	41.7	43.4	44.3	45.3
Capital - Sun Tran		2.5	2.7	0.4	0.5	3.5
Total per Forecast		45.2	44.4	43.8	44.8	48.8
Recommended Adjustments						
Add Debt Service - Certificates of Participation (Street Car Purchases) ⁽¹⁾		1.5	1.5	1.5	1.5	1.5
Add Land Used as Local Match on Federal Grant - CIP ⁽²⁾		1.5				
Reduce (Increase) Farebox Revenue ⁽³⁾						
Sun Tran		1.1	1.1	1.1	1.1	1.1
Sun Link		-0.1				
Remove Fare Increases ⁽⁴⁾			1.5	1.5	1.8	1.8
Remove COA savings ⁽⁵⁾		0.4	1.0	1.0	1.1	1.1
Adjust for Projected Expenditure Savings ⁽⁶⁾		-0.4	-0.3	-0.3	-0.3	-0.3
Adjusted Five Year General Fund Contribution/Investment in Transit Services		49.2	49.2	48.6	50.0	54.0

(1) Debt Service on five streetcars. Payment occurs over twenty years. Included in General Fund in FY 2015.

(2) Appraised value of land for federally funded capital project (not a cash or budgetary requirement).

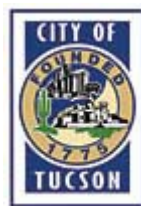
(3) Adjust farebox revenues based on actual revenues through October 2014.

(4) Remove future year fare increases.

(5) Forecast anticipated savings via February 2015 implementation of route changes recommended in the Comprehensive Operational Analysis (COA). These changes were not approved by Mayor and Council.

(6) October 2015 projected reduction in operating expenditure for FY 2015. Future years reduced by .3 M.

CITY OF TUCSON, ARIZONA



SUMMARY OF BOND SALE

\$20,00,000

**CITY OF TUCSON, ARIZONA
TAXABLE CERTIFICATES OF PARTICIPATION
SERIES 2014**

Purpose of Financing:	The proceeds of the Taxable 2014 Certificates is to (i) pay rent due to the City pursuant to the Series 2014 Equipment Lease comprised of five (5) streetcars that will be used in connection with operation of the City's Streetcar Project (ii) to pay the expenses incurred in connection with the execution and delivery of the 2014 Refunding Certificates, including payment of the premiums for the financial guaranty insurance policy with respect to the Taxable 2014 Certificates.			
Dated Date:	June 25, 2014			
Delivery Date:	June 25, 2014			
Principal Maturities:	July 1, 2017 to July 1, 2028			
True Interest Cost:	4.417484%			
Average Life (Years):	11.733			
Bond Ratings:		<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
	Insured:	N/A	"A2"	"AA"
	Underlying:	"AA-"	"A1"	"A+"
Insurance:	Assured Guaranty Municipal			
Redemption:	The Taxable 2014 Certificates are subject to optional prepayment prior to their respective scheduled principal payment dates on July 1, 2024.			
Bond Registrar and Paying Agent:	Wells Fargo Bank, N.A. Phoenix, Arizona			
Bond Counsel:	Ballard Spahr Andrews & Ingersoll L.L.P. Tucson, Arizona			
Underwriters:	R.W. Baird (Negotiated)			
Financial Advisor:	Piper Jaffray & Co. Phoenix, Arizona			

\$20,000,000
CITY OF TUCSON, ARIZONA
Taxable Certificates of Participation
Series 2014

<i>Payment Date</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Total Debt Service</i>	<i>Fiscal Debt Service</i>
1/1/2015			\$394,758.91	\$394,758.91	
7/1/2015	\$735,000	0.901%	382,024.75	1,117,024.75	\$1,511,783.66
1/1/2016			378,713.58	378,713.58	
7/1/2016	755,000	1.101%	378,713.58	1,133,713.58	1,512,427.16
1/1/2017			374,557.30	374,557.30	
7/1/2017	765,000	1.682%	374,557.30	1,139,557.30	1,514,114.60
1/1/2018			368,123.65	368,123.65	
7/1/2018	775,000	2.347%	368,123.65	1,143,123.65	1,511,247.30
1/1/2019			359,029.03	359,029.03	
7/1/2019	795,000	2.647%	359,029.03	1,154,029.03	1,513,058.06
1/1/2020			348,507.20	348,507.20	
7/1/2020	815,000	2.994%	348,507.20	1,163,507.20	1,512,014.40
1/1/2021			336,306.65	336,306.65	
7/1/2021	840,000	3.344%	336,306.65	1,176,306.65	1,512,613.30
1/1/2022			322,261.85	322,261.85	
7/1/2022	865,000	3.556%	322,261.85	1,187,261.85	1,509,523.70
1/1/2023			306,882.15	306,882.15	
7/1/2023	900,000	3.756%	306,882.15	1,206,882.15	1,513,764.30
1/1/2024			289,980.15	289,980.15	
7/1/2024	930,000	3.906%	289,980.15	1,219,980.15	1,509,960.30
1/1/2025			271,817.25	271,817.25	
7/1/2025	965,000	4.056%	271,817.25	1,236,817.25	1,508,634.50
1/1/2026			252,247.05	252,247.05	
7/1/2026	1,005,000	4.206%	252,247.05	1,257,247.05	1,509,494.10
1/1/2027			231,111.90	231,111.90	
7/1/2027	1,050,000	4.306%	231,111.90	1,281,111.90	1,512,223.80
1/1/2028			208,505.40	208,505.40	
7/1/2028	1,095,000	4.406%	208,505.40	1,303,505.40	1,512,010.80
1/1/2029			184,382.55	184,382.55	
7/1/2029	1,140,000	4.506%	184,382.55	1,324,382.55	1,508,765.10
1/1/2030			158,698.35	158,698.35	
7/1/2030	1,195,000	4.831%	158,698.35	1,353,698.35	1,512,396.70
1/1/2031			129,833.13	129,833.13	
7/1/2031	1,250,000	4.831%	129,833.13	1,379,833.13	1,509,666.26
1/1/2032			99,639.38	99,639.38	
7/1/2032	1,310,000	4.831%	99,639.38	1,409,639.38	1,509,278.76
1/1/2033			67,996.33	67,996.33	
7/1/2033	1,375,000	4.831%	67,996.33	1,442,996.33	1,510,992.66
1/1/2034			34,783.20	34,783.20	
7/1/2034	1,440,000	4.831%	34,783.20	1,474,783.20	1,509,566.40
Totals	\$20,000,000		\$10,223,535.86	\$30,223,535.86	\$30,223,535.86

DATE: November 10, 2014
TO: Mayor and City Council
FROM: Transit Task Force
SUBJECT: Transit Fare Policy

Your appointed Transit Task Force (TTF) has spent the last 18 months discussing your requested transit fare policy. We sent you a draft in January 2014. A number of things have changed since that draft.

- Start up of the SunLink System has generated a new enthusiasm for public transit and new ridership
- Recognition of the possibilities for managing fare options with the SunGO card
- SunTran and SunLink's information on Google Transit
- New members have joined the task force and have changed the direction of the discussion. They think the TTF should be focusing on how to expand ridership as a way to increase revenue rather than increasing fares.

On November 3, 2014, the Transit Task Force approved the attached transit fare policy as our recommendation to the Mayor and Council. Both the fare policy proposed by the staff and TTF contain revised and clarified goals in accord with the Five-Year Strategic Transit Plan. Chief among them are to support the City's sustainability and livability goals by encouraging widespread use of public transit, and to support the economic viability of the transit system. The TTF agrees with the concept of setting an objective 25% fare box recovery, but sees the path to achieving the 25% goal as a combination of three strategies;

1. Maintaining efficient operations;
2. Increasing ridership; and
3. Adjusting fares.

Adjusting fares should happen only when the first two strategies have achieved full potential. The staff proposed policy would raise the base fare, which would trigger a cascading increase in passes as outlined in their proposal. In contrast to the staff's recommended fare policy, which increases the number of rides used to set the price of period passes and then applies a discount, the TTF proposal essentially codifies the fare structure now in place and recommends that when fare adjustments are called for they may be made via changes to any of the following:

1. Base fare (i.e. price of a single ride);
2. The multipliers (i.e. how many rides are used to calculate the price of each period pass); and
3. Any discounts applied to longer-term passes.

The TTF has a number of ideas for new products that they will be discussing in the future and that we think will increase ridership and reward loyal transit users:

- 3 month, 6 month, 9 month and 12 month passes should be available to all customers, not just the University of Arizona faculty, staff, and students.
- Encourage Pima Community College to activate its program to sell semester and yearly passes to its students, faculty and staff.
- A summer youth pass.

- A weekly pass.
- We think that the transfer might be re-envisioned as a 2-hour pass, available for short trips in any direction as well as a way to connect without additional fees between buses/streetcar going in the same direction. This idea needs a fiscal impact analysis.
- A system of multi-ride discounts or bonus value for SunGO customers using stored value (e.g. 10 rides can be purchased for the price of 9 rides, or a \$50 purchase could yield \$55 worth of rides).

We will continue to work on these ideas for improving our transit system so that it contributes to the quality of life in our community as well as is an important driver for economic development.

Thank you for the opportunity to recommend a policy for your consideration.

Sincerely

Gene Caywood
Chair, TTF

Margot Garcia
Vice Chair, TTF

Copies: Members of TTF

Transit Task Force Recommended Transit Fare Policy

Purpose

The City of Tucson's Transit Fare Policy establishes the guidelines for setting and adjusting fares for the public transit system. Along with predictions about transit use throughout the region, the Fare Policy will facilitate the development of long-range fare revenue projections. The Fare Policy includes goals and objectives to support the guiding principles established by the Mayor and Council as part of the Five-Year Strategic Plan. The Fare Policy includes fare payment options, fare structure, target fare box recovery for Sun Tran, Sun Van and Sun Link, requirements for public notice and solicitation of comment, and guidelines for future fare adjustments.

Guiding Principle

In establishing fare levels and fare structure, it is important to consider the benefit of public transit to the community's overall quality of life. High-quality transit options throughout the community serve to reduce dependence on automobile travel, which enhances mobility and access to desired destinations for all residents, and supports economic vitality while reducing traffic congestion and providing environmental benefits that are shared by users and non-users alike. Thus the fare policy is intended to encourage and facilitate ridership growth while ensuring that total user fees contribute an appropriate proportion of operating costs.

Goals and Supporting Objectives

- A. Support the City of Tucson's sustainability and livability goals by encouraging widespread and diverse use of public transit.
 - 1. Allow for ease of movement between modes operating throughout the metropolitan area including Sun Tran, Sun Shuttle, Sun Van and Sun Link.
 - 2. Establish an easily understood fare structure, widespread availability of fare media, and convenient options for fare payment.
 - 3. Use creative pricing strategies to encourage new users, frequent ridership, and long-term ridership.
 - 4. Minimize barriers to new, occasional and non-resident users.
- B. Maintain the economic viability of the transit system by ensuring that total user fees contribute an appropriate proportion of operating costs.
 - 1. Support the goal, established in the Five-Year Strategic Plan, of achieving a target farebox recovery ratio of 25 percent on the Sun Tran local bus system.
 - 2. Use creative pricing strategies to encourage efficient use of transit services, lower the cost of fare collection and promote predictability in the revenue stream.

C. Promote efficient and effective fare collection and fare pass and media sales.

1. Ensure the financial efficiency and effectiveness of fare collection by minimizing the costs of fare collection and administration, reducing the possibility for fraud and abuse, and expediting the boarding process. Efficiency is defined as the simplest fare payment processes for handling fares and fare media by employees.

D. Provide for citizen input as specified in City of Tucson Resolution No. 22127, City of Tucson Policy and Procedure for Solicitation and consideration of Public Comment on Fare Changes and Major Service Changes on Public Transportation and oversight of fare policy development and implementation. The Mayor and Council's Transit Task Force shall review the fare structure annually in its public meetings. The review will include:

1. System performance indicators, such as cost per mile, cost per passenger and ridership for all modes. Additional factors impacting the cost of operating the various modes will be reviewed as required.
2. Evaluation of marketing and communication strategies to promote and educate members of the community about the public transit system.
3. Progress in achieving ridership goals as provided in the Five-Year Strategic Plan.
4. Quality and effectiveness of technology and customer service with respect to fare payment and pass sales.
5. Cost of living and other economic and demographic variables that could affect price elasticity and thus help to predict the financial and ridership impacts of the current fare policy and any proposed changes.

E. Changes to fare structure and fare strategies shall consider the following customer, community and financial objectives.

1. Establish equitable fares for all transit customer groups, while being mindful of the equity of transit riders and non-riders, all who help support the system.

F. Ensure that the Regional Marketing Plan provides a strategy to market and communicate the services and benefits of the transit agencies that make up the regional transit system.

1. Pass Products

- Evaluate current pass product usage and determine through research, evaluation and possible focus groups to implement pilot pass programs.

2. Volume Discount

- Additional evaluation and analysis will be done on group volume discount passes. To increase transit operating revenues and increase ridership, a volume

discount group pass program or unlimited access pass program should be evaluated. An unlimited access pass program would provide larger groups of people with unlimited ride transit passes in exchange for a contractual payment by a group's employer or other organizing body. Unlimited access pass programs have proven to be an innovative way for increasing transit operating revenues. Establishing an unlimited access pass program would allow larger organizations such as the University of Arizona and Pima Community College to purchase large volumes of passes for their members at a discounted rate. By purchasing passes in volume, these organizations can pass along the discounted rates to their members.

3. Community Outreach

- Evaluate community outreach efforts to determine possible events/locations to better market the regional transit systems.

4. Organizational Programs

- Evaluate current employer subsidy programs and develop a strategy to increase awareness and participation in such programs within the metropolitan area.

Fare Pricing Policy and Structure

The following guiding principles will be considered in the development of fare pricing:

- Fares will be consistent between Sun Tran and Sun Link for ease of use.
- Pricing for Sun Express service will account for the premium service being offered.
- Pricing of period passes will be based on multiples of the single-trip fare (base fare) and will be priced so as to:
 - Encourage their use, which reduces transaction costs for the system and the rider;
 - Provide added benefit to regular riders to encourage increased ridership; and
 - Incentivize larger purchases to encourage ridership and secure the revenue stream.

Multipliers (number of single rides used to calculate the price of a period pass) will provide for a discount that increases with the time period of the pass (i.e., greater savings are available to customers who buy passes for use over a longer period of time).

Based upon the above principles, the Base Fare and all other fares will have the following specific pricing relationships:

1. Single Trip Fares

- Sun Tran/Sun Link One-way Cash Fare (Base Fare)

The Sun Tran/Sun Link one-way cash fare is used as the Base Fare. All other fares are established as a ratio of the Base Fare. The Base Fare will be periodically adjusted as described in Fare Implementation and Adjustment Guidelines. Multipliers for period passes may be adjusted and are subject to the same public notice requirements as Base Fare adjustments.

- Sun Express Fare

The Sun Express Fare will be 133 percent of the Sun Tran Base Fare. This ratio is based upon the higher value placed upon this premium service.

- Sun Tran/Sun Link Economy Fare

The Sun Tran/Sun Link Economy Fare will be priced at 33 percent of the Base Fare. The Sun Tran/Sun Link economy fare consists of two programs:

1. City Low-Income Subsidy Program. Federal law mandates that seniors and disabled persons be offered a reduced fare not to exceed 50% of the regular fare. In addition, in 1972, the City of Tucson enacted the Low Income Subsidy Program to provide additional subsidy from the General Fund to assist qualified persons with low income. Eligibility requirements can be found at <http://www.suntran.com/fares reduced.php>.
2. Half Fare ADA and Senior Program. This program exceeds federal requirements for “Half Fare” for eligible disabled persons, persons with Medicare eligibility and seniors over the age of 65. Eligibility requirements can be found at <http://www.suntran.com/fares reduced.php>.

- Sun Van Regular Fare

Sun Van Regular Fare will be twice the Base Fare, which matches the maximum allowable under federal law. This fare is applied to all Americans with Disabilities Act (ADA) paratransit and Optional paratransit services.

Additional evaluation and analysis will be done on the pricing for Optional ADA Service. There is currently no additional fare charged for Optional ADA services provided by Sun Van. Federal regulations do not include a limit regarding fares charged for Optional ADA Service (i.e. service that is above and beyond that of the ADA). Consideration could be given to a change in this fare category to be twice that charged for ADA paratransit trips.

- Sun Van Low-Income Fare

The Sun Van Low-Income fare will be twice the Sun Tran Economy Fare. This matches the additional subsidy provided the City of Tucson to persons with low-income who use Sun Tran.

- Transfers
- Transfers within and between Sun Tran and Sun Link will be fare free, and are issued to provide the use of up to two additional buses to complete a trip in one direction within a two hour time frame. Transfers from Sun Tran’s regular fixed route buses and Sun Link to Express service buses will require an upcharge of the difference between the Base Fare and the Express Fare for Base Fare customers and the difference between the Economy Fare and the Express Fare for Economy customers. Children Free Fare

Children age five and under when accompanied by a paying passenger riding Sun Tran/Sun Link, will be fare free.

2. Period Passes

Period passes are offered to provide convenience to customers and represent a savings that encourages additional ridership, as outlined above. Period pass pricing ratios are as follows:

- Sun Tran/Sun Link 1-Day Pass

The Sun Tran/Sun Link 1-Day Pass is priced equivalent to 2.33 trips at the Base Fare.

- Sun Tran/Sun Link 31-Day Pass

The Sun Tran/Sun Link 31-Day Pass is priced equivalent to 28 trips at the Sun Express fare.

- Sun Express 31-Day Pass

The Sun Express 31-Day pass is priced equivalent to 28 trips of Base Fare.

- Sun Tran/Sun Link Economy 31-Day Pass

The Sun Tran/Sun Link Economy 31-Day Pass is priced equivalent to 30 trips at the single trip Sun Tran/Sun Link Economy Fare.

- University of Arizona (UA)/Pima Community College (PCC) Base Fare Semester Pass*

Semester pass for UA or PCC is valid for either the Fall or Spring semester and is priced equivalent to five months use based upon the discounted 31-Day pass ratio of 23 trips at the Base Fare. Semester pass holders can ride Sun Tran fixed route bus and Sun Link streetcars but will pay an upcharge of the difference between the Base Fare and the Express Fare if transferring to an Express service bus.

- UA/PCC Express Fare Semester Pass*

Semester Pass for UA or PCC Express service is valid for either the Fall or Spring semester and is priced equivalent to five months use based upon the 31-Day pass use ratio of 23 trips at the Sun Tran Express Fare.

- UA/PCC Annual Base Fare Pass*

UA/PCC Annual Base Fare Pass is valid for a period beginning August 1 through July 31 and will be priced equivalent to 12 months use based upon the discounted 31-Day Pass use ratio (23 trips) at the Base Fare. UA/PCC annual Base Fare pass holders can ride Sun Tran Fixed Route

bus and Sun Link streetcar but will also pay the upcharge of the difference between the Base Fare and the Express Fare if transferring to an Express service bus.

- UA/PCC Annual Express Pass*

UA/PCC Annual Express Pass is valid for a period beginning August 1 through July 31 and is priced equivalent to 12 months use based upon the 31-Day pass use ratio (23 trips) at the Sun Tran Express Fare.

* Pass product is currently offered to University of Arizona (UA) students, faculty and staff, with the UA paying 50 percent of the cost. Staff will work with Pima Community College (PCC) Administration to make the semester and annual passes available to PCC students, faculty and staff.

- Nonprofit Discount Fares

Tucson City Code (Sec. 2-18) includes the provision of discount products to organizations in the Nonprofit Program. These discounts would continue with a Nonprofit Day Pass prices should be priced at 50 percent of the Base Fare and Nonprofit 31-Day pass priced equivalent to the Economy 31-Day pass. The Economy ticket should be available only to Nonprofit organizations and is only for reduced fare qualified individuals

Media for a Nonprofit Two Ride fare is being developed to be priced equivalent to twice the Sun Tran/Sun Link Economy fare, plus any administrative and media fees assessed per the City's fare ordinance.

Fare Payment (Fare Payment Options)

Customers can use the following fare payment options on the transit system:

- Smart Card (SunGO Cards and Tickets) on board Sun Tran buses, Sun Express buses, Sun Link streetcar and Sun Shuttle vehicles.
- Cash payment on board Sun Tran buses, Sun Express buses and select Sun Shuttle vehicles. Cash payment is not available on Sun Link vehicles, however 1-Day passes may be purchased at all Sun Link stops.
- Sun Van Electronic Voucher system
- SunGO Cards and Tickets can be purchased online at Sun Tran's website, at sales outlets, and at each transit center throughout the region using credit or debit cards and cash. For a list of sales outlets, visit: http://www.suntran.com/fares_buy.php.

Funding Sources

The predominant funding source used to support public transit operations in the Tucson Metropolitan area comes from the City's General Fund. Additional funding sources include

surrounding jurisdictions, the RTA and corporations through the use of Intergovernmental Agreements (IGA's).

A portion of funding comes from user fees in the form of fares. Generally expressed as a percentage, farebox recovery is the farebox revenue collected, divided by operating expenditures. Farebox recovery is influenced by several factors including the overall ridership on the system and the fare structure as outlined in the previous section. To ensure consistent decision-making is applied over time, Sun Tran will:

- Monitor the farebox revenue of each mode annually and present this information during the budget development and review process for the City of Tucson
- Monitor efficiency of the operations of each mode
- Establish route productivity (performance) goals such as passengers per hour and cost per mile
- Target the overall farebox recovery ratio to approximately 25 percent for the Sun Tran local bus system. When the rate drops below this level, route level analysis will be performed and area of potential improvement will be identified for possible corrective action.

Fare Implementation and Adjustment Guidelines

The following guidelines outline the recommended steps for developing, evaluating and implementing fare adjustments:

- Annual review of usage, farebox recovery and other related data should be conducted and reported, with any recommended fare adjustments being made every two years. The two year cycle is intended to give customers time to adjust to any changes implemented and allow time for a complete system analysis of the impact from such changes.
- In implementing fare adjustments, the Mayor and Council with Transit Task Force's input may alter the base fare, multipliers, discounts, products available, or a combination of these.
- Decisions on the fare pricing structure are made by the City of Tucson City Council, with advice from its appointed Transit Task Force. Decisions affecting regional fares are coordinated with the RTA for its board approval, per the Intergovernmental Agreement (IGA).
- Fare changes and consideration of public comments will follow the process outlined in Tucson City Code as shown in Appendix C.

Future Fare Product Considerations

Future fare products for staff to consider and evaluate include:

- 3/6/12/month pass(es) available to the public
- Youth Summer Fare pass
- Discount on SunGO stored value

City of Tucson Independent Audit and Performance Commission

January 9, 2013

Subject: Report to Mayor and Council - Independent Audit and Performance Commission
Review of the Sun Tran/Sun Van Transit System

Honorable Mayor and Council:

In the draft Five Year Strategic Transit Plan document (dated October 5, 2012), the Transit Task Force (TTF) recommends to Mayor and Council that the Independent Audit and Performance Commission (IAPC) “perform an independent review of the system during fiscal year 2013 to ensure sound fiscal management, and then as often as deemed necessary. This review would include an examination of financial and system performance data in addition to external audit reports, findings, and corrective actions.” The TTF recommendation also lists IAPC with the lead responsibility for the review of fixed route, express, paratransit and streetcar modes.

The IAPC identified three potential areas of interest relative to an independent review of the transit system which could add value to its operation, financial management and planning, and ensure compliance with guidelines and regulations. Therefore, on November 27, 2012 an IAPC subcommittee met to discuss what audit/review processes are currently in place (by whom and how), the formulation of the transit system’s annual budgets, and information included in the Five Year Financial Forecast (“working document”) as included in the draft *Five Year Strategic Transit Plan* dated October 5, 2012. The following subcommittees’ findings and observations were reported to the full IAPC on December 5, 2012.

1. Audits and Reviews

The City’s mass transit system is already subject to a large and extensive number of regularly recurring audits/reviews conducted by external auditors for the Federal Transit Administration (FTA) and internal audits/reviews conducted by Sun Tran/Van Tran staff and City Internal Audit staff.

The IAPC Subcommittee conducted a cursory review of the following significant audits/reviews conducted in fiscal year 2011 by FTA contracted auditors: Financial Management Oversight Review, Procurement System Review, and a Triennial Review. The Subcommittee also reviewed the City’s responses for corrective action. The Transportation Department monitors the implementation of the City’s corrective action and provides progress reports to the FTA. Accordingly, the IAPC does not believe that it could add value to what has already been performed by those professional auditors.

2. Annual Budgets (Operating and Capital)

The budget development process is a collaborative effort between Sun Tran/Sun Van, the Department of Transportation (TDOT), and City staff. Sun Tran/Sun Van staff develop the budget following the City of Tucson’s budget process. Staff develops and recommends a budget based on anticipated service levels, ridership, and operating and capital costs and revenues. This information is presented and discussed in detail with TDOT management before it is included as a component of the overall TDOT budget for consideration by the City Manager, Budget Office, and Mayor and Council prior to budget adoption.

It appears that the Sun Tran/Sun Van budget is subject to appropriate scrutiny before submission for final approval and the IAPC has no recommendations at this time for strengthening the process.

3. Five Year Financial Forecast

The IAPC Subcommittee reviewed the *Five Year Strategic Transit Plan* document which contained the Five Year Financial Forecast (Appendix IV). After discussions with City and Veolia staff, the Subcommittee identified several important aspects of the Forecast:

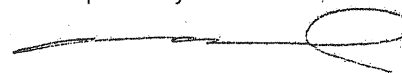
- The Five Year Financial Forecast “working document” included in the *Five Year Strategic Transit Plan* basically reflects status quo transit operations, with the exception of the addition of projected financials for the Sun Link Streetcar. Operational services are maintained at current levels over the years of the Forecast with varying yearly assumptions generating changes to revenues and expenses. While the *Five Year Strategic Transit Plan* identifies *Goals and Objectives*, such as expansion of the service area, details as to how they will be met and the resulting additional costs (or savings) have yet to be determined and therefore are not reflected in the Five Year Financial Forecast.
- City staff considers the Five Year Financial Forecast to be a draft and an on-going working document. Staff anticipates continuing to revise the projections as updated information becomes available over the next 4-6 months. Information related to the streetcar operation, both revenues and expenses, is expected to become more solid in the coming months.
- Discussion and agreement between Veolia and City staff regarding the recommended budget of potential annual General Fund investment in transit operations (which is projected in the Five Year Financial Forecast as increasing from \$40.5 million in FY 2013 to \$61.6 million in FY 2018) had not yet occurred prior to issuing the Five Year Financial Forecast (dated October 5, 2012).
- To date, it is our understanding that a *detailed* review of the Five Year Financial Forecast by the Transit Task Force has not taken place.

The IAPC recommends that it will undertake a detailed review of the Five Year Financial Forecast, and its underlying assumptions and projections, once the City and Veolia have generated a more solid forecast that clearly indicates its relationship to short-term goals and objectives established in the *Five Year Strategic Transit Plan*. The IAPC believes that to begin a review at this time, while that forecast is still under development, would be more disruptive than beneficial.

Conclusion

The IAPC would like to inform the Mayor and Council that, after due consideration, the IAPC believes that the TTF recommendation exceeds the IAPC’s capabilities. IAPC members are all volunteers with limited time available for projects of this magnitude, and while their diverse backgrounds include various types of financial expertise they do not include professional audit experience. The IAPC will, however, undertake a detailed review of the Five Year Financial Forecast (i.e., projected revenues and expenditures) at a later date and provide a report to Mayor and Council of its findings and recommendations.

Respectfully Submitted,



Michael McDonald
IAPC Chair

c: Richard Miranda, City Manager
Kelly Gottschalk, Assistant City Manager
Albert Elias, Assistant City Manager
Daryl Cole, Transportation Director
Carlos de Leon, Deputy Transportation Director
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Kate Riley, Sun Tran and Sun Van General Manager